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FISCAL IMPACT STATEMENT

LS 6666

BILL NUMBER: SB 157

NOTE PREPARED: Dec 10, 2003

BILL AMENDED:

SUBJECT: Tax Deduction for ICHIA Premiums.

FIRST AUTHOR: Sen. Skillman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides an income tax deduction for premiums paid by an individual for an Indiana Comprehensive Health Insurance Association policy.

Effective Date: January 1, 2005.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who purchase health insurance from the Indiana Comprehensive Health Insurance Association (ICHIA). The revenue loss due to this bill could potentially total \$1.9 M to \$2.4 M in FY 2006. It is estimated that the lower bound could potentially increase by 7.3% annually, and the upper bound could potentially increase by 16.2% annually. Premium levels are established administratively each year by the ICHIA Board of Directors within premium limits established under state statute. Thus, the revenue loss from the deduction could vary below or above the estimated range to the extent that either: (1) the statutory limits constrain annual premium increases below the growth rates assumed for the estimates; or deductibility provides an incentive to the ICHIA Board to annually increase premiums (albeit within the statutory limits) above the rates of growth.

Background: The bill establishes a deduction from AGI for premiums paid by individual taxpayers for health insurance policies purchased from ICHIA. ICHIA is the state's high-risk health insurance program. An

Indiana resident is eligible for coverage under an ICHIA policy if:

- (1) the individual has been rejected by one carrier for coverage under any insurance plan that meets or exceeds the minimum requirements for accident and sickness insurance policies issued in Indiana without material underwriting restrictions;
- (2) an insurer has refused to issue insurance except at a rate exceeding the ICHIA plan rate; or
- (3) the individual is a federally eligible individual, but is not eligible for Medicaid, and is not eligible for Medicare and 65 years of age or older.

Premium rates for coverage issued by ICHIA may not be unreasonable in relation to benefits provided, risk experience, and reasonable expense of providing coverage. Separate scales of premium rates based on age apply for individual risks. Premium rates must take into consideration the additional morbidity and administrative expenses for risks insured by ICHIA. For an insured whose family income is less than 351% of the federal poverty level, premium rates for a given classification may not exceed 150% of the average premium rate for that classification charged by the 5 carriers with the largest premium volume in Indiana during the preceding calendar year. For insured individuals with family incomes greater than 350% of the federal poverty level, the rates must be between 151% and 200% of the average premium rate for that classification. Actuarial adjustments are made to determine the average premium rate charged by the 5 carriers to determine the rate that would be charged by the carriers for benefits that are identical to ICHIA benefits.

Premiums paid by individuals for ICHIA health insurance policies totaled approximately \$45.44 M in 2002. Premiums are estimated to total \$56.1 M to \$71.2 M in 2005, based on 2002 actual premiums inflated in subsequent years assuming two different growth rates. The lower bound assumes 7.3% annual growth in premiums. This is equal to the average annual growth in health care costs through 2012 forecast by the Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services. The upper bound is based on an annual growth rate of approximately 16.2%, equal to the average annual increase in aggregate ICHIA premiums from 1990 to 2002.

Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund. Since the deduction is effective beginning in tax year 2005, the fiscal impact would begin in FY 2006.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: “An Overview of the Indiana Comprehensive Health Insurance Association,” Legislative Services Agency, November 13, 2003.

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